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DISCLOSING THE ACCOUNTING INFORMATION IN THE FINANCIAL STATEMENTS OF JOINT STOCK COMPANIES IN THE KINGDOM OF BAHRAIN

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ABSTRACT

The Study aims at identifying the importance of the accounting standards in disclosure. The relevance, the understandability and the materiality of the financial statements were studied. The hypothesis of the study is that the method of presenting financial statements is complex and thus an attempt was made to assess the method of presenting the information for the benefit of decision-makers. The study also concluded that there is an important role to be played by the Bahrain Accountants Association in helping to improve the process of disclosure in financial statements Keywords: The analytical procedures, The abnormal clauses in the financial statements Discovering guidelines, Predicting the inability of the companies, Analytical Operations Are Carried out, Normal Modeling approach

KEYWORDS: Disclosing, Accounting Information, Financial Statements, Stock Companies

INTRODUCTION

Generally, disclosure means complete publication, however in accounting it means that financial statements should display all the important information in which users are interested and which helps them to make sound decisions.

Disclosure also means publishing the necessary accounting data or information provided that such information is not misleading and does not affect the efficiency of the information stated in the financial reports that users need to make decisions.

Since accounting is considered to be the Language of Business, thus the authors of data contact the users of data through it; consequently users must receive the meanings that the authors of the data intend to convey in full. The complete understanding of such data is achieved by making this language understandable with the symbols, terms and rules that link them. Thus the importance of disclosure is related to how the financial statements are prepared and presented either in quality or quantity which requires taking an interest in the aspects related to accounting disclosure and its role in preparing and presenting financial data and further evidence is requested if the internal monitoring system is weak and remarkably unreliable. Therefore, the external auditor necessarily needs to carry out analytical procedures because the report system and the traditional financial statements are insufficient or for saving the time and the costs of the auditing process. Therefore, the research studies the analytical procedures used by the external auditors to find out the glaring errors and to predict the failure of the business organizations through case study on legal auditing offices in kingdom of Bahrain.

The Study Importance

Such Disclosure of accounting information reduces the hesitation of decision-makers because the quality of accounting information that is published periodically plays a vital role in making sound economic decisions which can benefit the decision- maker.

The researcher considers that despite the existence of many reasons that limit the degree of disclosure, there are a number of positive factors that would benefit the company if the degree of disclosure in its annual reports could be expanded. If the disclosure issue is left up to the company, management would subject it to its own standards of discretion and dispositions which would eventually lead to a difference in disclosure among the different companies and of the company itself over time.

The Study Objective

The study aims are as follows

- Define the aspects affecting accounting disclosure
- Define the aspects affecting disclosure to take decisions
- Draw conclusions and predict outcomes that are of interest to companies in the Kingdom of Bahrain and to decision- makers

The Study Hypotheses

The study hypotheses in the nihilism form are as follows

- There Does relevance affect disclosure for joint stock companies in Bahrain?
- Does understandability affect disclosure for joint stock companies in Bahrain?
- Does materiality affect disclosure for joint stock companies in Bahrain?

Using Accounting Information

In the reports issued by the American Accounting Association (AAA), the following was stated: (AAA, 1997: P7)

"While materiality is considered a quantitative standard that defines the size and quantity of the accounting standards that should be disclosed, relevance is considered the qualitative standard that defines the nature and type of the accounting information that should be disclosed. So these characteristics require a close relationship between the method of preparing the accounting information and disclosing it on one hand and the main objective for using this information on the other".

Since accounting information is a method to achieve a certain purpose, its content must be characterized by relevance for the objective desired. First of all, the objective for which this accounting information will be used will determine whether this information is relevant or not; thus relevance lies in the capacity of accounting information to be relevant or not, for relevance is one of the qualitative characteristics that should be present in accounting information. Consequently, relevance lies in the capacity of accounting information to change the decisions of the user of this information and affect it, i.e. the ability of information to make a difference in decision-making (Dehmesg 1995:23).

The information is relevant to a certain user if it was expected that he will benefit from it for a certain objective. Thus the objective of the information must be identified in the first place in order to be able to identify whether it is relevant or not. Mattar's study (1998: 60) revealed that the users of accounting information produced by investment analysts and credit analysts are interested in certain items in the financial statements.

Based upon the above, the researcher considers that it is necessary to focus on the information which is used by the largest number of beneficiaries to achieve their different objectives. This means that an important role needs to be played by the accounting associations in getting to know the local beneficiaries in order to identify the nature of information that is relevant for them. In the opinion of the researcher, this is not applicable in Bahrain at the present time, so it will require activating the role of the Bahrain Accountants Association to focus on this subject and pay relevant attention to it.

Nature and Type of Information that Should be Disclosed

The accounting information disclosed nowadays is represented in the financial data stated in the standard financial statements which are: the balance sheet,, the income statement, the cash flow statement and the change of ownership report, in addition to the main information that is considered necessary but since it is too detailed for the financial statements, it is presented in the notes that are considered to be an integral part of these statements. In order for this accounting information to achieve its main objective in serving decision-makers, qualitative characteristics should be present in this information.

However, before presenting the concept of each of these characteristics, two principles must be referred to that govern its assessment: (Mattar: 2004: 322)

- Assessing the priority or preference among all these characteristics must be done in the light of who will use it
- That the benefit expected from this information to whoever uses it shall exceed the cost incurred in providing this information, meaning that benefit > cost.

The qualitative characteristics that should be present in the information suitable for disclosure as determined by the Financial Accounting Standards Board (FASB) are the following:

First: Relevance

The information is relevant when it affects an economic decision. Relevance is determined by three factors:

- Predictive value: means the value of the information as a basis for predicting cash flow or capacity to generate revenue.
- Feedback value: the extent to which decision-makers depend on it to correct or amend their future expectations.
- Timeliness: means linking the relevance of the information for the decision-makers with the time in which it reaches them.

Second: Understandability

This means that the disclosed information must be characterized by clarity and simplicity so that decision-makers can understand the accounting information, and thus make relevant decisions. **Third: Usefulness:**

This means that the disclosed information must be useful to decision-makers. In order for the information to achieve its highest levels of usefulness, it must be have the following characteristics:

- **Reliability:** The information should be useful as a basis on which decision- makers can rely. This characteristic has three main factors:-

- **Neutrality:** Means that the data discloses the true position of the company without any bias in favor of a certain group or category.
- **Verifiability:** Means that the information on the financial statements is objective and verifiable as being true.
- **Representational Faithfulness:** Means that the information demonstrates the true position of the company without any increases or decreases.

Comparability and Consistency

In order for the disclosed information to be comparable, two main factors must be present:

- **Uniformity:** Refers to the exhaustive methods in preparing the financial statements published, regarding either measurement or disclosure.
- **Consistency:** Means the necessity for uniformity in following the same principles and bases all through the consecutive financial periods, regarding measurement or disclosure so that the published financial statements are comparable.

Materiality

This characteristic plays an important role as a measurement for identifying the information that should be disclosed according to its expected influence on the decision makers. It is also an important measurement in executing the aggregation process of items presented in the published financial statements. As regards the nature and type of information that should be disclosed, in all cases quantitative and non-quantitative information must be disclosed. When disclosing quantitative information, the focus should be on the information that helps decision-makers to make their decisions and useless details should be avoided. Moreover, not all the quantitative information included in the financial statements has the same degree of accuracy and objectivity, for there is some quantitative information that is accurate while others are assumptions. For example, the accounts relating to cash are determined accurately and there is no room for error about it, while the accounts relating to the assessment of intangible assets and predictive information is not as accurate and reliable because it depends on economic changes and conditions as well as the expertise of the person who assesses it. Amongst the information required in this regard is the description of the changes and methods used to arrive at the expected approximate numbers (Henderekson, 1982:858).

As for non-qualitative information, it is difficult to estimate this information and know how important and reliable it is because decision-makers differ in their assessments of the value of this information.

Thus, non-quantitative information is considered important and has a great effect on the disclosure process if it affects the steps in making decisions, but when it adds detail to the financial statements and makes it difficult to analyze, it loses its usefulness (Henderkeson, 1982:858)

Ways and Methods of Disclosing Accounting Information

Scientists and professionals have identified appropriate ways of disclosing the financial information necessary for making decisions, including the following:-

The Financial Statements: the main financial statements are the backbone for disclosure. In preparing them, generally accepted accounting principles must be taken into consideration. It also requires organizing and arranging the

information in the financial statements logically in a way that focuses on the essential matters according to the principle of materiality principle and in a way that enables decision-makers to read it easily.

In this context, a set of test studies conducted on the data published by public joint stock companies aiming at discovering how much is readable and understandable by the users of financial data revealed that the ability to read these data differs from one user to the other and that reading and understanding the data requires great expertise and skill.

Based upon the above, accounting standards are required for the disclosure of important information on the financial statements, provided that other accounting information that is less important is also disclosed, especially as related to the details, either in the notes- remarks- attached to these statements or in attached tables. Also in case it is necessary, sometimes the same information must be disclosed in more than one place in the financial statements if it is very important to the targeted user (Mattar, 2004:347).

The Report of the Board of Directors: this report should include a review of the achievements of the company as well as future plans and the future expectations of the Board in different fields, in addition to information that may benefit prediction. The Report of the Board of Directors derives its importance from its details and justifications on any matter that took place in the company previously, or any plans that would help decision-makers in making their decisions.

The External Auditor’s Report: this includes the neutral technical opinions that express the significance and exactitude of the financial statements in representing the company’s true position, and the extent to which accounting principles are applied, and the efficiency of the internal control system and the significant events that took place after preparing the financial statements, which increases the trust of the decision-makers in the financial statements.

Statistical Tables: these inform decision-makers about the outcome of the company’s operations in summary form. They include an analysis and disposition of assets, analysis of fixed and variable expenses, of the statement of sales and of the cost of sales and any other information that can be statistically analyzed. Accounting information is disclosed in the form of quantitative or qualitative data. Despite the fact that quantitative data is the prevalent type of information disclosed, the importance of qualitative data increases with time especially for information that cannot be presented quantitatively.

We cannot omit a reference to AlKhatib (2002: 161) that it is very important in providing appropriate disclosure that those in charge of preparing the financial statements should avoid placing the information in a place that is difficult to find. He cited a researcher (Healy, 199:25) who has presented the example of an American joint stock company that intentionally obscured important information in a statement that showed that the largest proportion of its annual profits was generated from one foreign transaction only in order to obscure the truth that its local transactions are not profitable.

The researcher’s view is that it is necessary for companies, including joint stock companies in Kuwait, to disclose in detail and with clarity their profits and resources in their financial statements in order to avoid misleading the users of this accounting information and thus negatively affecting their decisions. The financial statements should include only final figures that may lead to decisions that would affect their economic status.

Timing for Disclosing Accounting Information

The benefit of financial statements is lost if not presented to decision- makers within a reasonable time after the date of the publication of the budget by the government. The operation should enjoy a position that enables it to issue its

financial statements within six months of the date of the announcement of the public budget. Continuous factors such as the complexity of operational transactions should not be regarded as a sufficient reason for not submitting the statements on time. Legislation and market systems in many sectors have very specific deadlines (accounting standards).

Since the main target of disclosure is to satisfy the needs and desires of the users of financial statements and not to mislead them in making their different decisions, thus when these financial statements and reports are published they must include basic information that must be disclosed. The most important information that must be disclosed is discussed below.

Rules Related to Public Disclosure

The financial statements and reports must include general information about the company such as: the company name, legal form, its country of registration, the date of the announcement of the public budget and the accounting period covered in the financial data. The information published should also include an abstract about the operational activities and the organizational structure of the company and its employees, in addition to its competitive position within the market sector in which it operates.

Disclosure Related to Financial Policies

Mattar *et al*. (1996: 381) define accounting policies as being "a set of principles, rules, customs, measures and procedures that the administration follows in preparing financial data."

Due to the availability of multiple accounting policies that the company can choose from to address this issue, the company must choose the preferred alternative of these policies to show its financial situation and the outcome of its operations correctly in consideration of the conditions in which it functions. Henerkson (1982: 774) states that "disclosing the accounting policies helps in explaining the financial statements and reports better for any facility, thus it might affect investment decisions".

Disclosure Related to Financial Statements

The items on the financial statements must be disclosed in some detail, especially the quantitative data of these statements. For example

- **Rules of Disclosure for Fixed Assets:** Presentation of information on fixed assets is of great significance for decision-makers, and the different types of assets, the cost of each of these assets, in addition to the depreciation of each of them should be shown.

- **Rules of Disclosure for Current Assets:** Such as investing in securities and stating the market price and whether its value stated in the financial statements is different as well as disclosing the inventory. Detailed data is needed concerning the costs of different goods and the inventory valuation method. Raw materials, raw materials in production and the completed production, should be included in the financial statements, each according to its value. Types and categories of receivables should also be disclosed as well as the allowances for doubtful clients and bad debts.

- **Rules of Disclosure for Long-Term Obligations:** The financial statements include long term obligations and loans that differ from each other in such aspects as the interest rates, due dates, guarantees and payment terms.

It is appropriate to show the details related to long-term debt agreements in the financial statements, the appendices and the attached explanations.

- **Rules of Disclosure for Short-Term Obligations:** Short-term requirements include short-term bank loans and their terms, overdrafts and receivables in detail according to their types, in addition to deferred taxes and anything else related to short-term obligations.
- **Rules of Disclosure for Shareholders' Rights:** Each of the items related to shareholders' rights should be disclosed, such as authorized capital, issued capital, paid capital as well as reserves and withheld profits.
- **Rules of Disclosure for the Income Statement:** Mattar *et al.* (1996: 348) consider that "items on the income statement are to be disclosed such as sales, operational revenues, sales cost, depreciation expenses, interest and expenses as well as non-ordinary items in addition to the net income".

CONCLUSIONS

- Relevance is an important factor for joint stock companies in Bahrain as their predictive value raises the value of the information as a basis for estimating cash flow or the capacity to generate revenue.
- In presenting information on published financial statements,, quantitative and non-quantitative information should be differentiated. When disclosing quantitative information, companies should focus on those details that help decision-makers to make their decisions and useless details should be avoided.
- There are many alternative accounting policies that companies can choose from in addressing this issue. Companies must choose the preferred alternative of these policies to present its financial situation and the outcome of its operations correctly in the conditions in which it functions.

RECOMMENDATIONS

- Income statement items must be disclosed such as sales, operational revenues, sales cost, depreciation expenses, interest and expenses as well as non-ordinary items in addition to the net income.
- Fixed assets must necessarily be disclosed: presentation of fixed asset information is of great significance to the decision-maker and the different types, the cost of each of these assets, in addition to the depreciation of each of them should be disclosed.
- The role of the Bahrain Accountants' Association (BAA) must be activated to concentrate on the materiality of the items on financial statements

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